

## EXECUTIVE SECRETARIAT

## ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI				
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13	D/OLL				
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17	NIO/ECON		X		
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SUSPENSE		Date			

Remarks

cc: C/Kaplan Branch/OEA  
12 Sep 85

Executive Secretary  
12 Sep 85

Date

3637 (10-81)

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THE WHITE HOUSE  
WASHINGTON

Executive Registry

85- 3464

## CABINET AFFAIRS STAFFING MEMORANDUM

Date: 9/11/85 Number: 316984CA Due By: \_\_\_\_\_  
Subject: Talking Points on the Japan Action Plan

ALL CABINET MEMBERS	Action	FYI		Action	FYI
Vice President	<input type="checkbox"/>	<input type="checkbox"/>	CEA	<input type="checkbox"/>	<input type="checkbox"/>
State	<input type="checkbox"/>	<input type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input type="checkbox"/>	<input type="checkbox"/>	OSTP	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Justice	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input type="checkbox"/>	<input type="checkbox"/>	McFarlane	<input type="checkbox"/>	<input type="checkbox"/>
Commerce	<input type="checkbox"/>	<input type="checkbox"/>	Svahn	<input type="checkbox"/>	<input type="checkbox"/>
Labor	<input type="checkbox"/>	<input type="checkbox"/>	Chew (For WH Staffing)	<input type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
HUD	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Chief of Staff	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input type="checkbox"/>	<input type="checkbox"/>	Executive Secretary for:		
CIA	<input type="checkbox"/>	<input checked="" type="checkbox"/>	DPC	<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input type="checkbox"/>	EPC	<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
GSA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
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NASA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OPM	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
VA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
SBA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>

### REMARKS:

Attached for your use is a set of talking points on the Japan Action Plan.

### RETURN TO:

☐ Alfred H. Kingon  
Cabinet Secretary  
456-2823  
(Ground Floor, West Wing)

☐ Don Clarey  
☐ Rick Davis  
☐ Ed Stucky

Associate Director

THE WHITE HOUSE

WASHINGTON

September 11, 1985

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: EUGENE J. McALLISTER *EM*

SUBJECT: Talking Points on the Japan Action Plan

When Japan unveiled its Action Plan for Imports, the Economic Policy Council asked that a set of talking points for private discussions with the Japanese be prepared. The Treasury Department, in cooperation with other members of the Council, has prepared talking points which address the overall Plan and comment on particular elements of the Plan, including increased domestic demand, tariffs, import quotas, standards, government procurement and financial and capital markets. These talking points are attached for your use.

Attachment

## Talking Points on Japan's Action Program

### Overall

The U.S. welcomes the Action Program as an effort by Japan to resolve trade conflicts. By itself, however, the program will not eliminate the threat of protectionist actions, because it does not go far enough in opening Japan's market, and what it does achieve will come too slowly. Our ultimate objective is for Japan to increase its imports and provide U.S. businesses with access comparable to Japanese access to U.S. markets.

On the positive side, the U.S. Government finds encouraging:

- (1) Recognition by the Japanese Government of the need to open Japan's market and of Japan's role in the international trading system.
- (2) Prime Minister's personal leadership and involvement.
- (3) Establishment of a follow-up mechanism in the Prime Minister's office to implement the program.
- (4) Depth of work on standards and the emphasis on changing Japanese attitudes and buying practices.
- (5) Commitment to increase domestic demand and the establishment of a working group to plan and implement this policy.
- (6) Decision to study distribution problems and commercial practices.
- (7) Establishment of principles to guide the Japanese Government in the future:
  - o Freedom in principle, restrictions only as exceptions; and
  - o Government intervention kept to a minimum so as to leave choice and responsibility to consumers.
- (8) Generalization of agreements reached in MOSS talks:
  - o Transparency; and
  - o Participation of representatives of foreign companies.

On the negative side, the U.S. was disappointed in several respects:

- (1) Many of the measures are hedged, qualified -- leaving

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great discretion to implementing officials. The United States' experience with lower-level implementation discretion is not a happy one.

- (2) Many of the measures have been previously agreed and announced. It is disingenuous to claim credit repeatedly.
- (3) While implementation necessarily takes time, the schedule in many respects is too slow. We have a trade crisis. The timing should reflect the urgency of the situation.
- (4) Many specific U.S. requests were left out or not met fully:

- o Forest products:

- oo To bring our MOSS forestry talks to a successful conclusion requires a commitment on the part of Japan to reduce, and then eliminate, all tariffs on wood and paper products.

- oo We want the GOJ to begin reducing the tariffs on wood products no later than April 1, 1986.

- oo We do not accept the principle of linking tariff reductions on wood products to the successful implementation of Japan's programs to restructure the Japanese forest products industry.

- o Tariff levels on the following are also unsatisfactory:

- oo paper
  - oo tree nuts
  - oo fresh grapefruit,
  - oo wine, and
  - oo chocolate confectionery.

In short, the program is only a partial response to the trade frictions which both countries face. Therefore, more needs to be done. We suggest:

- (1) Action Program must be implemented expeditiously, in good faith, with energy. U.S. and GOJ officials should meet regularly to review implementation.
- (2) We must continue our broad efforts on trade, including MOSS talks, Sub-Cabinet, etc., until:
  - o Japan's imports of manufactures begin to increase steadily; and
  - o U.S. businesses report they have access to Japan comparable to Japanese access to the U.S. market.

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- (3) We must address issues covered only generally in the Action Program, including distribution problems and commercial practices, such as purchasing patterns of industrial groups and legislation affecting retail stores.
- (4) In considering policies to stimulate domestic demand, the Government of Japan should give preference to those that increase imports and that change the structure of demand to reduce the current account surplus.
- (5) We should concentrate on internal barriers to imports, including institutional and legal barriers.
- (6) "Visions"\*:
  - o We must also deal with the understandable skepticism of the American audience.
  - o A "Vision for Imports" could accomplish two key objectives:
    - oo indicate to the American public that Japan is changing, and
    - oo bring about structural changes needed to increase the role of imports in Japan's economy.

#### Specific Comments

##### Increased Domestic Demand

- The USG is glad to see specific recognition in the Action Program that Japanese domestic demand needs strengthening.
- Prime Minister Nakasone's specific reference to stimulating demand in his statement accompanying the release of the program was particularly encouraging.
- We agree that the establishment of a Special Working Group to plan and promote this effort is helpful. We understand it will review, in part, deregulation, the five-day work week, private sector vitality, and the tax system.
- We look forward to the speedy completion of the Work Group's study.

##### Tariffs

- The Japanese Government has taken a positive step in announcing that it intends to eliminate tariffs on 37 items and reduce tariffs by about 20 percent on more than 1800 items.

\* A "Vision" is the mechanism by which the GOJ sets industrial development objectives.

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- We are deeply disappointed, nowever, that some of the U.S. Government's top priority items were not included, despite our repeated requests. These include such items as wood products, chocolate confectionery and fresh grapefruit.
- We are furthermore disappointed that the tariff reductions on certain other items, such as paper products, tree nuts, and wine, are to be much smaller than we had sought. In addition, some of these cuts are to be implemented from April 1987, a full year later than we had expected.
- We note two new tariff measures included in the July Action Program that were not in the June tariff announcement:
  - o We are encouraged by the "priority" given to negotiations aimed at eliminating computer parts tariffs based on a "trade volume" rather than a "product-by-product" approach.
  - o Although the Japanese Government now firmly commits to reduce tariffs on plywood and other panel products, the Action Program did not meet the U.S. request for tariff reductions on specific wood and paper products beginning April 1, 1986, with complete elimination of tariffs (as in the United States) by April 1, 1987.

#### Import Quotas

- This section is particularly disappointing. The U.S. objective is still the elimination of quotas, and we believe this issue should be given priority attention.

#### Standards and Certifications, and Import Procedures

- The U.S. Government is encouraged by the commitment to open further the Japan Industrial Standards and Japan Agricultural Standards systems through greater use of U.S. testing bodies.
- We note that the Japanese Government reaffirms commitments made during the bilateral MOSS talks. We will be monitoring the implementation of these commitments, and measuring their impact on actual increased sales.
- The U.S. Government welcomes the Japanese Government's commitment to permit representatives of foreign interests to participate in deliberative councils that set industry standards. To ensure the meaningful transparency of individual councils' procedures, the Japanese Government should approve only those council procedures that allow for public notice of proposed standards, a reasonable comment period and a full exchange of views between representatives of foreign-owned companies and members of the de-

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liberative council.

- We are disappointed that the Action Program does not respond to our frequent request for industry self-certification of automobile standards.
- The U.S. Government is pleased that the Action Program contains provisions that, when implemented, could benefit U.S. producers and Japanese consumers of cosmetics, processed foods and electrical appliances.

#### Government Procurement

- We are pleased that initiatives on government procurement were included in the Action Program. We hope the procurement changes will be comprehensive and that we will soon see an increase in foreign purchases.
- We believe that it is important for the Japanese Government to set an example for local purchasing entities and private firms through a liberal government procurement policy.
- We do have some questions and reservations:
  - o With respect to uniform qualification procedures, all agencies must be aware of guidelines.
  - o The statements on single tendering are vague. More details are needed. What are the specific steps each of the ministries will take?
  - o The extension of bid deadlines to 40 days is good. However, in the past, in many cases the 30-day deadline was not adhered to.
  - o How will you publish information on winning bids?
  - o We have not completed our analysis of the impact of extending GATT Code coverage to new Japanese Government entities.
- We welcome the reporting system identified in the program. In October, when the ministries apply the system "in principle," we will closely monitor the system.

#### Financial and Capital Markets

- We welcome the financial measures included in the Action Program and the continued progress they represent in Japan's effort to open its financial markets and internationalize the yen.
- The steps identified in the program are broadly represen-



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tative of the kinds of issues discussed under the yen/dollar talks.

- We particularly agree with the need for liberalization of domestic interest rates and development of the short-term money market in Japan. We hope Japan will press ahead with implementation in these key areas as rapidly as possible.
- Other measures in the program will help achieve our other broad goals of further internationalizing the yen and improving the access of foreign financial institutions to the Japanese market.

#### Services and Import Promotion Measures

- The Prime Minister's renewed call on his country to purchase more imports is welcome, as well as the follow-up promotion measures.
- We are very interested in the planned study of the Japanese distribution system. During the drafting process, the study should be open for foreign input and ideas.
- We hope it will deal forthrightly with even difficult issues such as restrictions on the establishment of large retail stores and procurement practices among members of keiretsu groups. Previous Japanese Government studies of these subjects have tended to underestimate barriers to foreign market entry.
- The statement on foreign legal consultants raises more questions than it answers. For instance, questions of who will draft the amendment to the Lawyer's Law, who will regulate the foreign legal consultants, and what will be their permitted scope of activity all remain unanswered. We would welcome an early resolution of this issue consistent with the U.S. Government proposal of April 1965.
- We were disappointed that Japan did not create new business opportunities for U.S. insurance companies. National treatment does not provide market access if new companies are not allowed to compete in the market for existing services.